



House of Commons
Environment Food and Rural
Affairs Committee

**Greening the Common
Agricultural Policy:
Government Response
to the Committee's
First Report of Session
2012–13**

**Fourth Special Report of Session
2012–13**

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Environment, Food and Rural Affairs Committee

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Contacts

All correspondence should be addressed to the Clerk of the Environment, Food and Rural Affairs Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5774; the Committee's e-mail address is: efracom@parliament.uk. Media inquiries should be addressed to Hannah Pearce on 020 7219 8430.

Fourth Special Report

The Environment, Food and Rural Affairs Committee reported to the House on *Greening the Common Agricultural Policy* in its First Report of Session 2012–13, published on 1 June 2012. The Government response to the Report was received on 14 September 2012.

Government response

Introduction

The Government welcomes the Environment Food and Rural Affairs Committee's report on 'Greening the Common Agricultural Policy'. The Report is a timely contribution to the ongoing negotiations in the EU Council and European Parliament.

We share the Committee's assessment of the Commission's proposals that a one-size-fits all approach is not appropriate. The measures would apply across the UK and the Government is pleased to note that the Committee's thinking, particularly where it advocates an approach enabling Member States to tailor the greening measures to local environmental and agricultural conditions, largely accords with our own.

receiving any further comments on how the legislation should be framed for introduction.

Strategic Direction of the CAP

1. We support the Commission's broad goal that CAP payments be a method for improving environmental outcomes across Europe but we note that the lack of detail available about the Commission's specific proposals makes it difficult to make precise assessments of their potential impact and value. (Paragraph 8)

2. We are concerned that the Commission is pursuing a greening agenda as a way to justify the continuation of direct payments, rather than as a means to deliver genuine environmental improvements across the European Union. (Paragraph 9)

The Government is in favour of a greener CAP, with a greater proportion spent on public goods, including improved environmental outcomes such as supporting biodiversity, resource protection and climate change mitigation.

The UK Government is committed to a very significant reduction of direct support under Pillar 1 over the course of the next Financial Perspective and a CAP that moves away from market-distorting subsidies whilst helping to build the capacity, competitiveness, productivity and resilience of EU farmers. Greening should not be used as a justification for a continuation of direct payments but to ensure that public money is spent more effectively to help improve the environmental performance of EU agriculture without damaging its potential for enhanced production.

One-size-fits all

3. We recognise the need for a common policy to regulate aspects of the single European market, however, for policy areas such as the environment and rural development any policy must take account of the local circumstances: a one-size-fits-all approach will fail to deliver the desired outcomes. (Paragraph 16)

4. We recommend that Defra continue to press the Commission to develop a less rigid approach to 'greening' that would enable individual Member States the flexibility to decide measures that work best in their local environment. (Paragraph 17)

5. We recommend that Defra make the argument to the Commission that it should set the high-level objectives for a greener CAP and allow Member States the flexibility to determine how best to achieve those objectives. Such delegation has been proposed within the reform proposals for the Common Fisheries Policy and we recommend that Commissioner Ciolos consider how such an approach could be applied to the Common Agricultural Policy. We accept that complete decentralisation of these policy areas may be impossible to achieve within this round of CAP reform but we urge the Government to make the case that greater flexibility and increasing local decision-making should be the strategic direction of the CAP. (Paragraph 19)

We agree that the Commission's once size fits all approach to greening is too rigid. It does not take account of variations in environmental circumstances or agronomic conditions and can lead to unintended consequences. That is why we continue to explore wider options to allow Member States and regions to design measures that make sense for their farming, and for their environment. We are working closely with the devolved Administrations to ensure that greening measures are flexible, practical and effective.

Simplification

6. We consider it highly improbable that the Commission's proposals will deliver a simpler CAP. We recommend that Defra ensure that, as the negotiations continue, the Commission does not lose sight of the absolute need for a system of CAP payments that can be implemented and audited efficiently. The Commission must balance the often conflicting pressures of designing a policy that will deliver positive environmental outcomes with the need for a policy that can actually be implemented and delivered for a reasonable cost. (Paragraph 22)

We agree with the Committee about the need for a CAP that can be implemented at a reasonable cost and audited effectively. The Commission's own Impact Assessment estimates that the greening proposals alone will add almost 15% to the current level of administrative burden associated with direct payments, and with little by way of offsetting environmental gains. Simplification is a major concern for farmers and Member States. Inspection and enforcement of the greening measures will incur new administrative burdens for control bodies and add technical complexity. The Government will continue to press for a level of administrative and control requirements proportionate to the public benefits.

7. The capability and capacity of the Rural Payments Agency will be critical to the successful implementation of the reformed CAP. Defra must ensure that the agency has the financial resources and expertise to deliver the new regime. (Paragraph 23)

Defra has provided additional resources to the Rural Payments Agency, to support the Strategic Improvement Plan (SIP) and the Forward Options Programme (FOP). The SIP is addressing a number of legacy problems (for example, in the quality of data used to calculate direct payments) to ensure the RPA is well placed to implement the reformed CAP. The Agency has been provided with extra money and has engaged specialist support as part of the FOP to increase its capability to define the operational requirements and to manage the procurement process for putting in place the systems necessary to deliver the reformed CAP. Details are set out in the RPA's five year plan published in February and in the business plan for 2012-13 published in June [both available at <http://rpa.defra.gov.uk/>]. Defra will continue to work closely with the RPA to review budgets as necessary.

8. Whatever the form of the final mandatory 'greening' measures, Defra must not gold plate 'greening' through imposing more demanding measures on UK farmers than apply elsewhere. (Paragraph 25)

Defra understands the concerns of the Committee and stakeholders about the importance of ensuring a high level of ambition for greening across the EU..

9. The principal purpose of the CAP is to support food production and, in the long term, the goal for the CAP must be delivering sustainable food production. In developing these proposals the Commission appears not to have considered food security and how 'greening' will interact with efficient farm production. In our view the Commission has missed the opportunity to encourage sustainable intensification of food production. (Paragraph 31)

The Government wants to see reform of the CAP which encourages a real improvement in productivity and innovation in the agriculture sector, in order to help the farming industry prepare for a future without income support. The Government has placed a clear focus on growth and competitiveness in the agri-food sector and this sits at the heart of Defra's objectives. However alongside this the Government has made strong environmental commitments, which have been progressed within the Natural Environment White Paper and elsewhere.

There will inevitably be challenges in meeting both of these objectives, and it is for this reason that the Government and key partners are working together on a domestic initiative called the Green Food Project, which looked at these challenges and how we can work together to reconcile them. The initial conclusions of the project identified a number of strategic steps that we can take that will put us in a good position to achieve an increase in growth in the agri-food sector as well as opportunities for environmental improvement. This includes the need to develop a more strategic approach to land use, to place more focus on exploiting the comparative advantages of different types of land, and to better tailor and target our policy interventions to facilitate this. We will be carefully examining how the CAP can support us in doing this.

Modulation

10. The competitiveness of UK farmers will be reduced if they are exposed to higher modulation rates than their European counterparts. We therefore recommend that Defra does not set modulation rates higher than other Member States that receive similar single farm payment rates. (Paragraph 37)

In the absence of any indication of Pillar 2 allocation and with considerable forward commitments under existing stewardship schemes the UK must have the flexibility to move funds from Pillar 1 to Pillar 2 if it proves necessary.

11. We conclude that it is important that the two Pillars work together rather than at cross purposes to one another. However, increasing the burden on Pillar 2 is unlikely to be politically achievable, not least because of additional co-financing that would be required. (Paragraph 38)

The Government agrees that the two Pillars must work together if we are to achieve our ambitious objectives to secure a sustainable and competitive farming sector. Greening of Pillar 1 does present an opportunity to achieve environmental public goods without attracting co-financing rates. However, Pillar 1 greening will be more limited than Pillar 2 agri-environment schemes in its ability to tailor agreements to individual circumstances, and the use of other measures such as provision of advice or investment in physical assets, to secure the maximum benefits. Therefore the UK is working through the negotiations to ensure that funds transferred from Pillar 1 should not be subject to co-financing.

Competitiveness

12. We conclude that the 'greening' proposals will have a significant impact on the competitiveness of UK farmers. We urge Defra to continue to press the Commission to enable farmers to opt out of prescriptive mandatory measures in favour of those schemes that deliver environmental outcomes and do not diminish competitiveness. (Paragraph 42)

The Government believes that Pillar 2 provides the most cost effective means of encouraging competitiveness. Whilst greening is better included in Pillar 2, if it is to be a component of Pillar 1 then it is essential that membership of a stewardship scheme should not disadvantage any entitlement to greening payments.

13. We recommend that farmers that do not carry out 'greening' activities should not receive the 'greening' top-up payment but should not be subject to additional penalties. We recommend that, if a farmer chooses not to carry out 'greening', that that farmer's share of the Pillar 1 'greening' fund should be able to be transferred to Pillar 2. Any Pillar 1 funding transferred to Pillar 2 under this approach would not be subject to the co-financing requirements. (Paragraph 45)

We agree. The Government's view is that any funds transferred from Pillar 1 to Pillar 2 should not be subject to national co-financing.

Crop diversification

14. The Commission's crop diversification measure may have environmental benefits in some areas of some Member States. However, in the UK, the measure will have perverse consequences and will be considerably less environmentally beneficial than crop rotation. The measure will deliver minimal environmental benefits to the UK while placing substantial costs on UK farmers and administrators, as well as risking distorting the market for produce. We recommend that Defra seek to remove this measure from the Regulations. (Paragraph 51)

15. If the measure remains in the Regulations, we recommend that Defra consult with the industry and other stakeholders to determine the appropriate definitions that give the most flexibility to farmers and communicate the outcome of that consultation to the Commission. It is critical that the Commission provides more details about how the measure will be defined, particularly in relation to the definition of a crop, prior to the Regulations being adopted. We further recommend that, Defra press the Commission to amend the Regulations so that only very large farms will have to meet the crop diversification requirement. (Paragraph 52)

We agree with the Committee's assessment. Introducing a variety of crops into production can have a number of positive environmental effects. However, as the Commission itself recognises, the environmental and agronomic benefits of this measure are severely limited not least by the inability to require rotation because of the practical difficulties of administering and enforcing this as an annual measure in Pillar I.

We share the concerns expressed by the Committee and a wide cross section of stakeholders that this measure may lead to perverse consequences; affect farm management practices and additional administrative complexity. We agree that removing it and seeking to address its objectives through alternative means may be a more effective way forward. In consultation with stakeholders we are making progress in securing workable crop definitions and on thresholds which mitigate unintended consequences.

Retention of Permanent Pasture

16. The requirement to retain permanent pasture is likely to have unintended and perverse consequences. The Regulations will not target protection at areas that provide the most environmental benefit and are inconsistent with allowing farmers to respond to market signals. (Paragraph 55)

17. We recommend that Defra press the Commission to adopt a definition of permanent pasture that takes account of the differences in environmental value of improved and semi-improved pasture versus semi-natural grassland. Defra should argue that the Regulations protect semi-natural grassland while providing farmers with flexibility over the management of lower environmental value pastures. (Paragraph 56)

18. We recommend that Defra urge the Commission to make funding available to Member States to map their semi-natural grasslands, which would inform policies such as monitoring biodiversity, planning decisions and deployment of agri-environment schemes. We further recommend that Defra commission a comprehensive grassland inventory for England. (Paragraph 57)

We agree with the Committee's assessment of the permanent grassland measure. The Commission proposals add little by way of environmental outcomes to the provisions already present in the CAP regime.

We share the Committee's objective of having a measure which can protect higher value pasture. However, we need to reflect on how this can best be achieved within greening in ways which do not make implementation unduly complex and bureaucratic for farmers and paying agencies.

As the Committee will know, the Farming Regulation Task Force recommended that Natural England (NE) should establish a better way to identify valuable grassland sites. NE has already undertaken a feasibility study on how best to identify these environmentally valuable grasslands. It is currently considering the outcome of the study and will be putting advice to Defra shortly on how best to take this work forward.

Ecological Focus Areas

19. We note the lack of evidence to support the Commission's proposal for 7% of land to be given over as an Ecological Focus Area. We recommend that the Commission set out the basis for, and evidence supporting, the 7% figure. We are far from convinced that applying a formulaic percentage of area at farm-level is the most effective or efficient method of delivering the Commission's environmental objectives. (Paragraph 63)

20. There is insufficient detail in the Commission's draft Ecological Focus Area proposal to assess whether it will deliver the desired environmental benefits. We do not believe that the UK Government should agree to these measures in the absence of those details. We recommend that Defra ensure that the Regulations include a definition of the landscape features that will count towards an EFA. We further recommend that such a definition should include landscapes or areas managed under appropriate agri-environment schemes. (Paragraph 65)

21. We recommend that the Commission consider how Member States might implement EFAs in such a way that would enhance environmental interconnectivity. We recommend that Defra explore how projects and funding streams allocated to the implementation of the Natural Environment White Paper might be integrated with Commission's EFA measures to deliver ecological networks across the country. (Paragraph 66)

22. We recommend that future agri-environment schemes should include measures to incentivise farmers to manage their EFAs for biodiversity and other environmental benefits, for example through sowing pollen and nectar seed mixes or through locating their EFAs so as to create a coherent network. (Paragraph 67)

We broadly share the Committee's assessment of EFAs. The potential environmental benefit of EFA could be significant. However, a fixed area requirement for EFA is likely to impact differently across farms and farm types depending on the extent to which features and other non productive land exists on a holding. The extent of its benefit and of its impact on productive capacity will therefore be critically dependent on both the final

percentage requirement for EFA, the targeting of the areas and the eligibility of different features which would contribute to the EFA requirement.

Consequently, Member States must also have sufficient discretion to ensure EFAs can be applied in ways which permit a more strategic approach to land use to optimise both environmental and production outcomes, which we are already seeking to examine further through the Green Food Project (see Recommendation 9)

We agree that there should be coherence between the greening requirements in Pillar 1; the agri-environment schemes in Pillar 2 and our wider environmental objectives in NEWP. Depending on the final outcome of the greening aspects of the CAP Reform negotiations we will consider the best options for making Pillar 1 greening; Pillar 2 agri-environment schemes and other policy initiatives complement each other to optimise the environmental outcomes of the CAP.

23. We recommend that Defra make the argument to the Commission that tenant farmers should only be required to comply with the EFA measure in relation to any non-productive land within their holding. (Paragraph 68)

We recognise that an area requirement for EFA is likely to impact differently across farms and farm types depending on the extent to which features and other non productive land exists on a holding. An EFA which is actively managed would help address this differential; allow for some offsetting reduction in its size and still deliver environmental benefits but with less impact on production than a larger, unmanaged area.

24. If Defra identifies difficulties for tenant farmers or commoners in accessing agri-environment schemes we would expect the department to respond positively and identify solutions so that those farming groups are not disadvantaged. (Paragraph 69)

The Government has made clear its commitment to ensure that Uplands Entry Level Stewardship (ELS) is accessible to all eligible uplands farmers, and to tackle any barriers that are identified.

However, as outlined in the letter of 26 March 2012, from the Minister of State, Jim Paice, to the Committee's Chair, our monitoring of Uplands ELS so far has provided no evidence of any systemic problems with tenant farmers or commoners gaining access to the scheme. We will continue to monitor uptake of Uplands ELS among commoners and tenants.

Commoners and tenants play an important role in upland farming. Their participation in Uplands ELS and Higher Level Stewardship is therefore very much in our interests to secure positive environmental outcomes.

25. We recommend that Defra emphasise to the Commission the important role of tenant farmers in UK agriculture and ensure that any negative outcomes from this round of CAP reform do not disproportionately affect them. (Paragraph 71)

Defra agrees that tenant farmers play an important role in UK agriculture and will seek to ensure that their interests, along with those of other stakeholders, are adequately protected during the reform. It is possible that the final text will not require Member States who already operate flat rate area payments to reallocate entitlements at all, in which case landlords would gain no advantage from ending tenancies. On "active farming", progress

has been made in the negotiations and the Commission is no longer proposing to require Member States to test the non-agricultural income of all claimants with claims of more than €5,000, but to limit the use of such a test to claims from those on a “negative list” of business types not normally associated with agriculture. The Government would prefer that the definition should relate to the active farming of land rather than to the type of organisation.

Agri-environmental schemes

26. The United Kingdom's agri-environment schemes are among the best in Europe at delivering meaningful environmental benefits. We are concerned that the Commission's 'greening' proposals will have a chilling effect on the UK's existing, successful, agri-environment schemes. This round of CAP reform should do nothing that would diminish those schemes effectiveness or extent. We conclude that the Commission's initial proposals failed to recognise the benefits accrued by the UK's existing schemes and as a result would disadvantage farmers that participated in such schemes. (Paragraph 77)

27. We welcome recent moves by the Commission to enable participation in an agri-environmental scheme to be taken into account when assessing a farmer's obligations under the 'greening' proposals. However, those amendments to the Regulations are yet to be agreed. We therefore recommend that Defra continue to make the case in Europe that membership of an approved agri-environment scheme should be included as an alternative measure under 'greening', so that farmers can choose whether to carry out the three 'greening' measures or join an approved agri-environment scheme in order to receive their 'greening' payment. (Paragraph 78)

The Government shares the Committee's belief that agri-environment schemes are the best way to get better environmental outcomes from the CAP, and will support continued uptake and delivery of these. As the Committee says, the Commission has indicated that agri-environment and other certified schemes could, under certain circumstances, be considered as fulfilling one or several of the greening measures.

We welcome this initiative from the Commission as the basis of further discussion. However, the criteria put forward by the Commission are highly restrictive. The UK continues to explore ways to ensure a better balance of benefits to costs from greening. We support the Commission's efforts to make clear that farmers cannot be paid twice for the same environmental measures in both Pillars 1 and 2.

28. We seek assurances from Defra that farmers currently in agri-environment schemes will receive no penalty for leaving schemes should either the design of or payments under those schemes alter as a result of 'greening'. We seek Defra's assurances that farmers who leave their agri-environment scheme contract due to changes resulting from the implementation of 'greening' can do so without penalty or requirement to repay money at any point between now and either the implementation of the post-2013 CAP or the publication of the conditions for the post-2013 agri-environment schemes, whichever is later. (Paragraph 80)

Ministers have already pledged to make sure that farmers entering or renewing agri-environment agreements can choose to opt out without penalty if they have to make changes to their agreements as a result of greening. Farmers with 5-7 year agri-environment commitments entered into from 1 January 2012 or later which have to be adjusted either because of changes to the new Rural Development Programme or because of greening may withdraw without penalty.

However, there is no legal basis for allowing farmers wishing to withdraw from their agreements ahead of the new programme (and before the five or ten years of their agreements has expired) and they would be required to return all payments received during the life of their agreements, plus interest, in the normal way.

Defra's points system and recent developments

29. We are surprised that Defra decided to introduce its idea for a points system at too late a stage in the process to enable the critical scientific assessment of the proposal across the European Union to be conducted. We consider it unlikely that the UK's points system will be embraced by Member States or the European Parliament. On the other hand we welcome the apparent openness of several Member States and some in the European Parliament to a more flexible approach to 'greening'. We urge Defra to redouble its efforts to explain to all parties to the negotiations the diverse benefits greater flexibility and local tailoring would provide. (Paragraph 85)

Defra disagrees that its ideas on a points system were introduced too late. Ministers and officials have been active in advocating greater flexibility to tailor greening to national and regional circumstances as the best way of delivering meaningful environmental outcomes from greening. Discussions on how best to achieve this are ongoing. It was in response to pressure from a group of Member States (including the UK) whose views informed a paper put forward by Luxembourg, that the Commission indicated its willingness to amend its proposals in certain, limited respects. We will continue to work with the Commission, the European Parliament and within the Council to secure greater flexibility in recognition of Member States' agricultural and agronomic diversity.

Defra's Approach

30. As we have noted in previous reports, it is critical that Defra engage proactively with the Commission, other Member States and the European Parliament. In order to achieve the necessary level of engagement Defra must ensure that its EU-facing policy teams are properly staffed, trained and resourced. In response to this report we recommend that the department set out how it has ensured that it is bringing the appropriate resources to bear on Europe; the staffing of EU negotiating teams; how they have altered over the past two years and the impact of the department's reorganisation on those teams. (Paragraph 89)

Defra has recently carried out a full review of staff resources across the department as part of the departmental restructuring exercise. Staff resources have been allocated in response to business need and the resources allocated to teams dealing with specific EU negotiations will continue to be reassessed as those negotiations progress. That exercise also included a reorganisation of EU coordination and strategy functions, aimed at bringing a more

integrated approach to Defra's engagement with the EU institutions and with other Member States, and a new EU strategy team has accordingly been set up under the Director who is also responsible for the CAP reform negotiating team. In 2011 Defra carried out a project to identify best practice in negotiations and to consider how best to share expertise. This project developed comprehensive guidance for staff and an internal website aimed at sharing best practice throughout the organisation and providing a place to capture important information relating to individual EU negotiations. Teams engaging in EU negotiations use the tools and resources available through this website to meet the Coalition's Guiding Principles of EU Regulation.

Conclusion

31. We consider environmental enhancements under the CAP to be beneficial. UK farmers have delivered significant environmental improvement through agri-environment schemes and the Government must ensure that those benefits are not diluted by the imposition of mandatory 'greening' measures that would create perverse and contradictory outcomes. (Paragraph 92)

32. We do not recommend that Defra oppose the concept of 'greening' Pillar 1, but rather that it should focus on the practical effects of the proposals. Defra must focus on securing a system that gives enough flexibility to the UK to work within its existing system of agri-environment schemes. There is still time for the proposals to be improved and Defra must ensure it has the resources to find, engage and secure reliable allies across the European Union and effectively and persuasively to put the UK's case that the CAP should support both the agricultural sector and provide environmental protection. (Paragraph 95)

The Government agrees with the Committee about the value of agri-environment schemes. The CAP should allow countries to continue to deliver environmental public goods. In the UK, we want to be able to continue our ambitious agri-environment schemes. Under a smaller CAP budget, we want to see Pillar 2 receive an increased share and be allocated more objectively.

We will continue to work with the Commission, the EP and like-minded member states to secure greater flexibility in recognition of Member States' agricultural and agronomic diversity to ensure CAP is greened effectively and with minimal administrative burdens, to secure practical, effective and simple provisions for farmers.